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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8-40712

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 07/01/05 AND ENDING 06/30/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATIONNAME OF BROKER-DEALER: Pacific Financial Associates, Inc

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY

FIRM I.D. NO.

30240 Rancho Viejo Road Ste. A
(No. and Street)

San Juan Capistrano CA
(City) (State)

92675
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Charles Mann

949 493-5900
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Mallory + McGinnis

(Name - if individual, state last, first, middle name)

17341 Irvine Blvd Tustin
(Address) (City)

CA
(State)

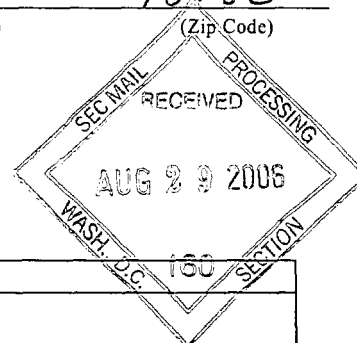
92780
(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESSED

SEP 21 2006

THOMSON
FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

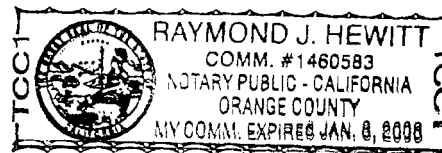
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information contained in this form are not required to respond
unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, CHARLES MAW, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PACIFIC FINANCIAL ASSOCIATES, INC., as of JUNE 30, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

[Signature]
Signature
PRESIDENT
Title

[Signature]
Notary Public



This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☒ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

PACIFIC FINANCIAL ASSOCIATES, INC.

Financial Report

June 30, 2006

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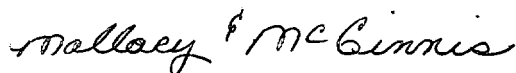
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To the Stockholders
Pacific Financial Associates, Inc.
San Juan Capistrano, California

We have audited the accompanying balance sheet of Pacific Financial Associates, Inc.(a California corporation) as of June 30, 2006 and the related statements of income, retained earnings, changes in liabilities subordinated to claims of creditors and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Pacific Financial Associates, Inc.(a California corporation) as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

A handwritten signature in cursive script that reads "Mallory & McGinnis".

Mallory & McGinnis

August 11, 2006

PACIFIC FINANCIAL ASSOCIATES, INC.

Balance Sheet

June 30, 2006

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 25,928
Commissions Receivable	<u>8,191</u>

Total Current Assets	<u>34,119</u>
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PROPERTY AND EQUIPMENT

Auto	44,192
Equipment	75,229
Furniture and Fixtures	15,078
Leasehold Improvements	<u>40,000</u>
Total Cost	174,499

Less Accumulated Depreciation	<u>(136,935)</u>
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Property and Equipment, Net	<u>37,564</u>
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OTHER ASSETS:

Investments	<u>3,300</u>
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TOTAL ASSETS	<u>\$ 74,983</u>
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The notes to Financial Statements are an
integral part of these statements

PACIFIC FINANCIAL ASSOCIATES, INC.
Balance Sheet
June 30, 2006

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES:

Accounts Payable	\$ 3,285
Commissions Payable	<u>7,372</u>

Total Current Liabilities	<u>10,657</u>
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LONG TERM LIABILITIES:

Note Payable – Stockholder (Subordinated)	<u>30,000</u>
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STOCKHOLDER'S EQUITY:

Common Stock, no par value, authorized 100,000 shares; issued and outstanding 51,000 shares	 2,000
Retained Earnings	<u>32,326</u>

Total Stockholder's Equity	<u>34,326</u>
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TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u><u>\$ 74,983</u></u>
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The notes to Financial Statements are an
integral part of these statements

PACIFIC FINANCIAL ASSOCIATES, INC.
Statement of Income
Year Ended June 30, 2006

Income	\$ 649,877
Cost of Income	<u>(343,350)</u>
Gross Profit	306,527
Operating, General and Administrative Expenses	<u>311,598</u>
Operating Loss	<u>(5,071)</u>
Other Income (Expense)	
Interest Income	1,898
Interest Expense	<u>(3,419)</u>
Total Other Income (Expense)	<u>(1,521)</u>
Loss before Provision for Income Taxes	(6,592)
Income Taxes	<u>(800)</u>
Net Loss	<u>\$ (7,392)</u>

The notes to Financial Statements are an
integral part of these statements

PACIFIC FINANCIAL ASSOCIATES, INC.
Statement of Retained Earnings
Year Ended June 30, 2006

RETAINED EARNINGS

Balance, beginning	\$ 39,718
Net Loss	<u>(7,392)</u>
Balance, ending	<u>\$ 32,326</u>

The notes to Financial Statements are an
integral part of these statements

PACIFIC FINANCIAL ASSOCIATES, INC.
Statement of Changes in Liabilities
Subordinated to Claims of Creditors
Year Ended June 30, 2006

Note Payable-Stockholder (Subordinated)	
Balance, beginning	\$ 30,000
Additions	0
Deletions	<u>0</u>
Balance, ending	<u>\$ 30,000</u>

The notes to Financial Statements are an
integral part of these statements

PACIFIC FINANCIAL ASSOCIATES, INC.
Statement of Cash Flows
Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net Loss	\$ (7,392)
Adjustments to reconcile net income to net cash provided by (used in) operating activities	
Depreciation	3,773
Change in assets and liabilities:	
Increase in commissions receivable	(5,987)
Increase in accounts payable	3,007
Increase in commissions payable	<u>5,388</u>
Net cash used in operating activities	<u>(1,211)</u>

Cash at beginning of year	<u>27,139</u>
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Cash at end of year	<u><u>\$ 25,928</u></u>
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Supplemental Disclosures of Cash Flows

Cash payments for interest	<u><u>\$ 3,419</u></u>
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Cash payments for income taxes	<u><u>\$ 800</u></u>
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The notes to Financial Statements are an
integral part of these statements

PACIFIC FINANCIAL ASSOCIATES, INC.
Notes to Financial Statements
June 30, 2006

Note 1: Summary of Significant Accounting Policies

Organization

The Company was incorporated on September 24, 1984 pursuant to the laws of California to engage in the practice of investment consulting.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. For income tax reporting purposes, the Company uses the cash basis method of accounting, where-by income is recognized when received and expenses are recognized when paid.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers investment money market accounts available on demand to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Depreciation is determined using the methods prescribed by the Internal Revenue Code, which prescribes rates and periods for various categories of assets. Use of these methods approximates amounts determined by generally accepted accounting principles.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

When the property is disposed of the related costs and accumulated depreciation are removed from their respective accounts and profit or loss is recognized currently.

Off- Balance Sheet Risk

The Company maintains a bank account at a financial institution with a balance exceeding \$100,000.00, the statutory limit of federal depository insurance. Should this financial institution fail, the Company could possibly incur a material loss.

PACIFIC FINANCIAL ASSOCIATES, INC.
Notes to Financial Statements
June 30, 2006

Note 2. **Income Taxes**

Income Taxes consists of the following amount:

State	\$ <u>800</u>
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For federal tax purposes the Company has a net operating loss carryforward of \$7,903 to offset future taxable income.

No deferred tax entry has been made for permanent or temporary differences that exist due to the immateriality of such amounts.

Note 3. **Note payable - Stockholder**

Interest at 10%, per annum principal
due February 28, 2010.

The entire \$30,000 has been
designated as a subordinated loan
per National Association of Security
Dealers, Inc. guidelines.

\$ 30,000

PACIFIC FINANCIAL ASSOCIATES, INC.
Notes to Financial Statements
June 30, 2006

Note 4. **Operating Leases**

The Company has entered into a non-cancelable triple net agreement to lease its office space from a company owned by the sole stockholder of Pacific Financial Associates, Inc. The Lease expires on February 28, 2009. The total minimum net rental commitments at June 30, 2006 under the lease are as follows:

Year Ended <u>June 30</u>	Minimum <u>Amounts</u>
2007	\$ 84,000
2008	84,000
2009	<u>56,000</u>
Total minimum payments required	<u>\$ 224,000</u>

Rental expense was \$84,000 for 2006

Note 5. **Salary Deferral Plan**

The Company has a salary deferral plan for the benefit of its employees. Matching contributions to the Plan are made at the discretion of the Company's Board of Directors. The matching contribution for the year ended June 30, 2006 was \$3,300.

PACIFIC FINANCIAL ASSOCIATES, INC.
Notes to Financial Statements
June 30, 2006

Note 6. Net Capital Requirements

Under Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a ratio of aggregate indebtedness to net capital, as defined, not exceeding 15 to 1.

The Company's ratio at June 30, 2006 was .46 to 1.00. The basic concept of the rule is liquidity. Its object being to require a broker/dealer to have at all times sufficient liquid assets to cover its current indebtedness. At June 30, 2006 the Company had net capital of \$23,211, which was \$18,211 in excess of the amount required.

Note 7. Reserve Requirements for Brokers and Dealers

The Company is exempt from provisions of Rule 15c3-3 (per paragraph k (2) (ii) of such rule) under the Securities Exchange Act of 1934 as an introducing broker or dealer transacting security transactions on a fully disclosed basis. The Company does not maintain physical custody of customer funds or securities. Because of such exemption, the Company is not required to prepare a determination of Reserve Requirements for Brokers and Dealers.

Note 8. Contingent Liability

During the year ended June 30, 2005 the Company became a defendant for an arbitration hearing. This was a NASD arbitration case. During the year ended June 30, 2006 the Company was fully exempted from the arbitration.

To the Stockholders
Pacific Financial Associates, Inc.
San Juan Capistrano, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of income detail, computation of net capital, computation for determination of reserve requirements, and information relating to the possession or control requirements as shown on pages 13 to 18 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in, our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


MALLORY & MCGINNIS

August 11, 2006

STATEMENT OF INCOME DETAIL
Year Ended June 30, 2006

INCOME:

Annuities	\$ 254,631
Mutual Funds	360,705
Insurance	7,907
A.P.S.C. Securities	5,656
Commissions Receivable	8,191
Miscellaneous	<u>12,787</u>
Total Income	<u>\$ 649,877</u>

COST OF INCOME:

Commissions Paid to Brokers	\$ 335,978
Commissions Payable to Brokers	<u>7,372</u>
Total Cost of Income	<u>\$ 343,350</u>

STATEMENT OF INCOME DETAIL
Year Ended June 30, 2006

OPERATING EXPENSES:

Officer Salary	\$ 111,000
Payroll Taxes	<u>7,674</u>
Total Operating Expenses	<u>118,674</u>

GENERAL AND ADMINISTRATIVE EXPENSES:

Accounting & Legal	4,437
Advertising	187
Automobile	19,544
Bank Charges	805
Broker/Dealer	8,201
Cleaning	6,000
Computer	560
Delivery & Postage	1,921
Depreciation	3,773
Dues & Subscriptions	1,964
Education & Seminars	1,542
Insurance	29,983
Meals & Entertainment	5,869
Office	4,951
Parking & Tolls	836
Profit Sharing	3,300
Promotion	963
Rent	84,000
Repairs & Maintenance	65
Supplies	57
Taxes & Licenses	622
Telephone	1,990
Travel	8,527
Utilities	<u>2,827</u>
Total General and Administrative Expenses	<u>192,924</u>
Total Operating, General and Administrative Expenses	<u>\$ 311,598</u>

COMPUTATION OF NET CAPITAL IN ACCORDANCE WITH
 RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION
 UNDER THE SECURITIES ACT OF 1934
 JUNE 30, 2006

	Amounts from Audited Financial Statements	Amounts from Unaudited filings with Regulatory Agencies	Difference Increase (Decrease)
Total Capital and allowable credits:			
Total stockholder's equity from balance sheet	\$ 34,326	\$ 37,309	\$ (2,983)
Plus: Subordinated note (Note 3)	30,000	30,000	0
Total Additions	30,000	30,000	0
Deductions and/or changes:			
Property and equipment, net	37,564	37,564	0
Investment	3,300	3,300	0
Other assets	0	0	0
Total deductions	40,864	40,864	0
Net Capital before charges on trading securities position	23,462	26,445	(2,983)
Necessary charges on trading securities position:			
Securities discounts	251	251	0
Total necessary charges on trading securities position	251	251	0
Net Capital	\$ 23,211	\$ 26,194	\$ (2,983)

COMPUTATION OF NET CAPITAL IN ACCORDANCE WITH
 RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION
 UNDER THE SECURITIES ACT OF 1934
 JUNE 30, 2006

	Amounts from Audited Financial <u>Statements</u>	Amounts from Unaudited filings with Regulatory <u>Agencies</u>	Difference Increase <u>(Decrease)</u>
Minimum Net Capital under the Securities and Exchange Act:			
Total aggregate indebtedness included in the balance sheet, less liabilities collateralized by assets used in the ordinary course of business	\$ <u>10,657</u>	\$ <u>7,674</u>	\$ <u>2,983</u>
Ratio of aggregate indebtedness to net capital	<u>.46</u>	<u>.29</u>	<u>.17</u>
Minimum net capital required	\$ <u>5,000</u>	<u>5,000</u>	<u>0</u>

NOTE: The difference between the audited capital computation and the Company's corresponding unaudited Form X-17A-5, Part IIA, dated June 30, 2006 is due to adjustments made subsequent to the filing of Form X-17A-5, Part IIA, in preparation for and as a result of the Company's annual audit, and the adjustments required to convert the records from a modified cash basis to an accrual basis financial statement.

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
JUNE 30, 2006

The Company is exempt from Rule 15c3-3 under the exemptive provisions of (k) (2) (ii) and, therefore, has no reserve requirements since it clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer. The customers transmit all funds and securities directly to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

INFORMATION RELATING TO THE POSSESSION OR CONTROL
REQUIREMENTS UNDER RULE 15c3-3
JUNE 30, 2006

The Company is exempt from Rule 15c3-3 under the exemptive provisions of (k) (2) (ii) and, therefore, has no possession or control requirements.

REPORT ON INTERNAL CONTROL STRUCTURE
REQUIRED BY SEC RULE 17a-5

Board of Directors
Pacific Financial Associates, Inc.

We have audited the financial statements of Pacific Financial Associates, Inc. (a California corporation) for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. As part of our examination, we made a study and an evaluation of the company's system of internal controls to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The limited purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by Pacific Financial Associates, Inc. (a California corporation) that we considered relevant to the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3(e).

The management of the Company is responsible for establishing and maintaining a system of internal accounting control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures, and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5 (g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of the inherent limitations in any internal accounting control structure or the practices and procedures referred to above, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal controls of Pacific Financial Associates, Inc. taken as a whole. However, our study and evaluation disclosed the following condition that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Pacific Financial Associates, Inc. (a California corporation) may occur and not be detected within a timely period. The Company lacks a segregation of duties in relationship to the policies and procedures for internal controls. These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the June 30, 2006 financial statements dated August 11, 2006.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy of such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at June 30, 2006 to meet the Commission's objectives.

This report is intended solely for the use of management and the Securities and Exchange Commission and should not be used for any other purpose.



Mallory & McGinnis
Certified Public Accountants

August 11, 2006